

FUNCTION 570: MEDICARE

This function includes only the Medicare program. Medicare pays for medical services for about 39.7 million senior and disabled citizens and for those with End Stage Renal Disease. Medicare is administered by the Health Care Financing Administration, part of the Department of Health and Human Services.

	(\$ Billions)						
	1999 Actuals	2000	2001	2002	2003	2004	2005
President's Budget:							
Budget authority	190.6	206.3	220.2	229.3	242.4	264.7	286.7
Outlays	190.4	202.5	220.5	229.3	242.2	265.0	286.7
OMB Baseline:							
Budget authority	190.6	206.3	221.1	227.0	245.6	258.7	281.2
Outlays	190.4	202.5	221.4	227.0	245.3	259.0	281.1
Budget compared to OMB Baseline:							
Budget authority	---	---	-0.9	2.3	-3.2	6.0	5.5
Outlays	---	---	-0.9	2.3	-3.2	6.1	5.5

Baseline Spending

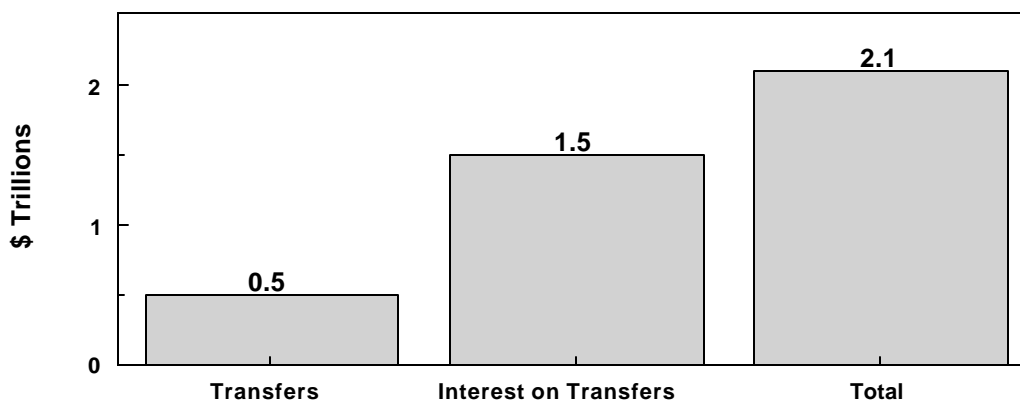
- < Medicare spending fell in 1999 compared to 1998, the first time in the program's history that spending declined from one year to the next.
 - In 1999, Medicare spending was \$190.4 billion, down from \$192.8 billion in 1998, for a reduction of 1.2 percent.
- < Over the next 5 years, the budget estimates Medicare spending will increase at an average annual rate of 6.8 percent under current law.
- < In 1999, the Medicare Board of Trustees estimated that the Medicare Hospital Insurance trust fund would remain solvent until 2015 under current law.

The President's Irresponsible Proposal to Transfer \$2.1 Trillion in IOUs to Medicare

- < The President's budget includes the same irresponsible proposal he made last year to transfer about \$2.1 trillion in general funds to the Medicare Hospital Insurance (HI) trust fund between 2001 and 2027.

- This proposal is nearly identical in structure to the proposal the President has made to transfer \$34 trillion in IOUs to Social Security.
- < Countless experts, including the Comptroller General of GAO, have testified before Congress about these proposed general fund transfers to Social Security and Medicare.
 - They have made it clear that these transfers do nothing to solve the underlying problems of financing Social Security and Medicare, and they have absolutely no effect on the budget.
- < The only real effect of these transfers is a hidden tax increase on future generations.
 - In the case of Medicare, future taxpayers will be forced to pay higher income taxes to pay off the IOUs that would be given to the Medicare HI trust fund.
- < See function 650 (Social Security) for a longer discussion of these transfers.

The President's Proposal General Fund Transfers to Medicare 2000 - 2027



Source: Health Care Financing Administration

The President's Medicare Reform Proposal

- < The budget includes the President's proposals to reform Medicare, first released in June 1999.
- < Overall, the President proposes to increase Medicare spending by \$22.3 billion over the period 2001 to 2005 and \$133.2 billion over the period 2001 to 2010 (including \$35 billion in additional spending that is not reflected in the function 570 spending totals).

< The major elements of this proposal are:

- **Prescription Drug Coverage:** The President proposes to add a new, voluntary, outpatient prescription drug benefit to Medicare. The benefit is “upside down” in terms of insurance coverage: beneficiaries would get first dollar coverage for their drug costs, but there would be a maximum insurance protection of \$2000 initially, rising to \$5000 over time. Moreover, beneficiaries would be asked to pay a coinsurance rate of 50 percent and a premium equal to 50 percent of the government’s costs. Low income beneficiaries would get additional assistance for coinsurance and premium costs. The budget estimates this coverage (plus the Medicare buy-in) will cost \$40.8 billion over five years, and \$168.2 billion over ten years. In addition, the President has proposed a last minute addition to this initiative, providing \$35 billion in an undefined catastrophic drug coverage proposal. Total spending will therefore be \$203 billion over ten years.
- **Increased Beneficiary Cost-Sharing:** The President proposes to index the part B deductible, now at \$100, to inflation, beginning in 2003, and impose 20 percent coinsurance on clinical lab services. These provisions would save \$2.7 billion over five years.
- **Fee-for-Service Provisions:** The President proposes to give the Health Care Financing Administration (HCFA) the authority to run a Preferred Provider Organization (PPO) for Medicare beneficiaries, with selective contracting of physicians, hospitals, and other services, even though PPOs are already authorized under the Medicare+Choice program. In addition, he proposes to give HCFA the authority to selectively contract for a number of part B services (other than physician services) as a regular part of fee-for-service Medicare. The budget estimates savings from these provisions at \$3.2 billion over five years.
- **Provider Payment Cuts:** The President proposes a number of reductions in the payment rates for providers, including a 0.8 percentage point reduction in the update for inpatient hospital services in 2001, a reduction in the payment rate for certain drugs (generally cancer treatment drugs) covered by Medicare under current law, and reduction in bad debt payments to hospitals. The budget includes savings of \$14.3 billion over five years from these and other provider cuts.
- **Medicare Buy-In:** The budget includes a proposal from last year’s budget to extend Medicare buy-in options to persons age 55 to 65. This year, the President also proposes a 25 percent tax credit for the cost of these Medicare premiums (shown in the revenue estimates). The buy-in options will increase Medicare spending by \$980 million over five years.

Administration

- < The budget proposes \$220 million in new **user fees** in 2001 to finance program administration costs at the **Health Care Financing Administration**. The new fees include:
 - a \$1 fee on paper claims (\$83 million);
 - a duplicate claim user fee (\$18 million);
 - a new managed care registration fee (\$21 million); and
 - a new survey and certification fee (\$13 million).
- < Under current law, HCFA is authorized to collect user fees from Medicare+Choice plans to pay for some of the costs of informing beneficiaries regarding their options. The budget proposes to increase these fees from \$100 million in 2000 to \$150 million in 2001.
- < The budget proposes to increase funding for HCFA's administrative costs from \$2.1 billion in 2000 to \$2.2 billion in 2001, a \$102 million, or 4.8 percent, increase.
- < The new user fees proposed in the budget reduce outlays for administrative costs from \$2.0 billion in 2000 to \$1.9 billion in 2001.

